Johannesburg Roads Agency SOC Limited
(Registration number 2000/028993/07)
Annual Financial Statements
for the year ended 30 June, 2015

## General Information

| | |
|---|---|
| **COUNTRY OF INCORPORATION AND DOMICILE** | South Africa |
| **NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES** | Construction and maintenance of roads, traffic signals and stormwater infrastructure |
| **DIRECTORS** | J Manche - Chairperson (Appointed 4 February 2015)<br>DS Macozoma - Managing Director (Resigned 30 June 2015)<br>GP Mbatha - Chief Financial Officer (CFO)<br>L Nxumalo<br>H Mashele<br>E Ngomane<br>L Mashamaite<br>A Torres<br>N Msezane<br>J Maina<br>M Ramasia (Appointed 4 February 2015)<br>KC Shubane (Resigned 4 February 2015)<br>SM Maimane (Resigned 4 February 2015) |
| **REGISTERED OFFICE** | 66 Pixley Ka Isaka Seme Street<br>Corner Rahima Moosa Street<br>Johannesburg<br>Gauteng<br>2001 |
| **BUSINESS ADDRESS** | 66 Pixley Ka Isaka Seme Street<br>Corner Rahima Moosa Street<br>Johannesburg<br>Gauteng<br>2001 |
| **POSTAL ADDRESS** | Private Bag X70<br>Braamfontein<br>Johannesburg<br>2017 |
| **SHAREHOLDER** | The City of Johannesburg Metropolitan Municipality |
| **BANKERS** | Standard Bank Limited |
| **AUDITORS** | The Auditor-General of South Africa |
| **SECRETARY** | Karen Mills |
| **COMPANY REGISTRATION NUMBER** | 2000/028993/07 |

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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**ABBREVIATIONS**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| JRA | Johannesburg Roads Agency |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| ME's | Municipal Entities |
| MMC | Member of the Mayoral Committee |
| MFMA | Municipal Finance Management Act |
| USDG | Urban Settlement Development Grant |
| SOC | State Owned Company (SOC) |
| CoJ | City of Johannesburg |
| City | City of Johannesburg |

## Directors' responsibilities and approval

The Directors are required by the Municipal Finance Management Act, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Directors set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While business risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the Directors are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 9.

The annual financial statements set out on pages 13 to 75, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 November 2015 and were signed on its behalf by the Managing Director and the Chairperson of the Board:

| | |
|---|---|
| **M Kau - Acting Managing Director (Appointed 11 May 2015)**<br>**Designation** | **J Manche - Chairperson (Appointed 4 February 2015)**<br>**Designation** |

**Johannesburg**

## Audit committee report

## Audit committee report

# Audit committee report

# Audit committee report

# Report of the auditor general

**TO THE PROVINCIAL LEGISLATURE OF JOHANNESBURG ROADS AGENCY SOC LIMITED**

**Report on the financial statements**

**Responsibility of the board for the annual financial statements**

The directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor General audit circular 1 of 2005], and in the manner required by the Companies Act of South Africa [any applicable enabling legislation. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis of accounting**

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note ] [note  to the financial statements].

**Other matters**

**Matters of governance**

**The Auditor-General of South Africa**

# Director's Report

The directors submit their report for the year ended 30 June, 2015.

## 1. INCORPORATION

The entity was incorporated on 17 November 2000 and obtained its certificate to commence business on the same day.

## 2. REVIEW OF ACTIVITIES

### Main business and operations

The entity is engaged in the construction and maintenance of roads, traffic signals and storm water infrastructure and operates principally in Johannesburg, South Africa.

The operating results and state of affairs of the entity are fully set out in the attached annual financial statements. For further details reference can be made to the Chairman's Report and the Accounting Officer's Report. These reports do not form part of the annual financial statements and can be requested from the company secretary.

Net surplus of the entity for the 12 months period ended 30 June 2015 was R 181,841,035 (2014: surplus R 120,434,379), after taxation. The entity relies on the City of Johannesburg Metropolitan Municipality for funding of its continued existence.

## 3. GOING CONCERN

The entity is a state owned Company with the City of Johannesburg Metropolitan Municipality (The City) being the sole shareholder. The JRA is wholly dependent on the City for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and the City has neither the intention, nor the need to liquidate or materially curtail the scale of, or funding to, the entity.

This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The approved operating budget for the 2015/2016 financial year is R 943 million and the approved capital budget for the 2015/2016 financial year is R 1.415 billion.

## 4. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year which will materially alter the report as submitted.

## 5. DIRECTORS' INTEREST IN CONTRACTS

The Directors have declared that they do not have any interests in the contracts of the entity.

## 6. ACCOUNTING POLICIES

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 7. SHARE CAPITAL

There were no changes in the authorised or issued share capital of the entity during the year under review.

# Director's Report

**8. BOARD**

The directors of the entity during the year and to the date of this report are as follows:

| Name | Nationality |
|---|---|
| J Manche - Chairperson (Appointed 4 February 2015) | South African |
| DS Macozoma - Managing Director (Resigned 30 June 2015) | South African |
| GP Mbatha - Chief Financial Officer (CFO) | South African |
| L Nxumalo | South African |
| H Mashele | South African |
| E Ngomane | South African |
| L Mashamaite | South African |
| A Torres | South African |
| N Msezane | South African |
| J Maina | South African |
| M Ramasia (Appointed 4 February 2015) | South African |
| KC Shubane (Resigned 4 February 2015) | South African |
| SM Maimane (Resigned 4 February 2015) | South African |
| M Kau - Acting Managing Director (Appointed 11 May 2015) | South African |

**9. SECRETARY**

The secretary of the entity is Karen Mills of:

Business address

66 Pixley Ka Isaka Seme Street
Corner Rahima Moosa Street
Johannesburg
Gauteng
2001

Postal address

Private Bag X70
Johannesburg
2017
2001

**10. CONTROLLING ENTITY**

The entity's controlling entity is The City of Johannesburg Metropolitan Municipality

**11. SPECIAL RESOLUTIONS**

It was resolved that the remuneration of the non-executive directors and independent audit committee members of the Company for the period ended 30 June 2015, be approved, in accordance with the City of Johannesburg Metropolitan Municipality policy dealing with the remuneration of non-executive directors and independent audit committee members and further, that the remuneration of the executive directors of the company for the period ending 30 June 2015 be paid subject to the upper limits of remuneration as determined by the City of Johannesburg Metropolitan Municipality in terms of section 89 of the Local Government: Municipal Finance Management Act, 2003.

**12. BANKERS**

Standard Bank Limited.

**13. AUDITORS**

The Auditor General of South Africa will continue in office for the next financial period.

# Director's Report

**14. MEETINGS**

Ten (10) Board meetings and nine (6) Audit, Risk and Finance Committee meetings were held during the period 1 July 2014 to 30 June 2015.

## Company secretary's certification

**Declaration by the Company Secretary in respect of Section 88(2)(e) of the Companies Act**

In terms of section 88(2)(e) of the Companies Act 71 of 2008 and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged for the period ended 30 June 2015, with the Companies and Intellectual Property Commission all such returns as are required and that all such returns are true, correct and up to date.

Karen Mills
Company Secretary

Johannesburg

## Statement of Financial Position as at 30 June, 2015

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 3 | 19,892,189 | 27,186,562 |
| Trade and other receivables | 5 | 442,772,311 | 549,236,352 |
| Cash and cash equivalents | 7 | 425,740,217 | 96,606,365 |
| | | **888,404,717** | **673,029,279** |
| **Non-Current Assets** | | | |
| Property plant and equipment | 8 | 159,575,654 | 146,553,496 |
| Intangible assets | 9 | 17,294,441 | 3,445,152 |
| Employee benefit asset | 6 | 58,505,486 | 61,051,371 |
| | | **235,375,581** | **211,050,019** |
| **Total Assets** | | **1,123,780,298** | **884,079,298** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 13 | 10,519,708 | 9,909,079 |
| Trade and other payables | 14 | 674,013,403 | 642,946,149 |
| Provisions | 15 | 29,099,578 | 39,479,548 |
| | | **713,632,689** | **692,334,776** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 13 | 15,986,670 | 24,698,937 |
| Employee benefit obligation | 6 | 45,887,893 | 59,044,000 |
| | | **61,874,563** | **83,742,937** |
| **Total Liabilities** | | **775,507,252** | **776,077,713** |
| **Net Assets** | | **348,273,046** | **108,001,585** |
| Share capital | 16 | 1,000 | 1,000 |
| Reserves | | | |
| Contribution from owner | 17 | 181,444,616 | 123,014,187 |
| Accumulated surplus/ (deficit) | | 166,827,430 | (15,013,602) |
| **Total Net Assets** | | **348,273,046** | **108,001,585** |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| Revenue | 18 | 869,072,189 | 773,340,180 |
| Cost of road maintenance | 19 | (445,638,345) | (398,068,940) |
| **Gross surplus** | | **423,433,844** | **375,271,240** |
| Other income | 20 | 75,194,253 | 11,216,174 |
| Operating expenses | | (329,263,277) | (302,037,066) |
| **Operating surplus** | 21 | **169,364,820** | **84,450,348** |
| Investment income | 23 | 20,649,588 | 10,371,998 |
| Finance costs | 25 | (8,173,373) | (4,912,835) |
| **Surplus for the year from continuing operations** | | **181,841,035** | **89,909,511** |
| Surplus from discontinued operations | 12 | - | 30,524,871 |
| **Surplus for the year** | | **181,841,035** | **120,434,382** |

## Statement of Changes in Net Assets

| Figures in Rand | Share capital | Contribution from owner | Accumulated surplus/ (deficit) | Total net assets |
|---|---|---|---|---|
| **Balance at 01 July, 2013** | **1,000** | **89,310,982** | **(135,447,984)** | **(46,136,002)** |
| Changes in net assets | | | | |
| Surplus for the year | - | - | 120,434,382 | 120,434,382 |
| Assets financed through COJ | - | 33,703,205 | - | 33,703,205 |
| Total changes | - | 33,703,205 | 120,434,382 | 154,137,587 |
| **Balance at 01 July, 2014** | **1,000** | **123,014,187** | **(15,013,605)** | **108,001,582** |
| Changes in net assets | | | | |
| Surplus for the year | - | - | 181,841,035 | 181,841,035 |
| Assets financed through COJ | - | 58,430,429 | - | 58,430,429 |
| Total changes | - | 58,430,429 | 181,841,035 | 240,271,464 |
| **Balance at 30 June, 2015** | **1,000** | **181,444,616** | **166,827,430** | **348,273,046** |
| Note(s) | 16 | 17 | | |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Receipts** | | | |
| Subsidies and other | | 1,050,742,638 | 556,014,891 |
| Interest income | | 20,649,588 | 10,371,998 |
| | | 1,071,392,226 | 566,386,889 |
| **Payments** | | | |
| Suppliers and employees | | (673,089,044) | (349,553,317) |
| Finance costs | | (1,122) | (442,877) |
| | | (673,090,166) | (349,996,194) |
| **Net cash flows from operating activities** | 28 | **398,302,060** | **216,390,695** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property plant and equipment | 8 | (42,630,116) | (59,019,893) |
| Purchase of other intangible assets | 9 | (15,798,697) | (2,587,951) |
| **Net cash flows from investing activities** | | **(58,428,813)** | **(61,607,844)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of shareholders loan | | - | (92,706,736) |
| Finance lease payments | | (10,739,395) | (7,331,940) |
| **Net cash flows from financing activities** | | **(10,739,395)** | **(100,038,676)** |
| **Net increase in cash and cash equivalents** | | **329,133,852** | **54,744,175** |
| Cash and cash equivalents at the beginning of the year | | 96,606,365 | 41,862,190 |
| **Cash and cash equivalents at the end of the year** | 7 | **425,740,217** | **96,606,365** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Approved Budget | Actual amounts on comparable basis | Difference between final budget and actual | |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **REVENUE** | | | | | | |
| **REVENUE FROM EXCHANGE TRANSACTIONS** | | | | | | |
| Gautrans maintenance fees | 5,500,000 | 3,800,000 | **9,300,000** | 5,788,000 | **(3,512,000)** | 1 |
| Asphalt Sales | 4,000,000 | - | **4,000,000** | 768,814 | **(3,231,186)** | 2 |
| Jobbings | 18,000,000 | 5,000,001 | **23,000,001** | 18,754,029 | **(4,245,972)** | 3 |
| Reinstatement income | 19,567,057 | 1,999,942 | **21,566,999** | 11,572,762 | **(9,994,237)** | 4 |
| Tender deposits | - | 433,000 | **433,000** | 2,612,885 | **2,179,885** | |
| Management fees | 25,000,000 | (4,733,000) | **20,267,000** | 17,785,787 | **(2,481,213)** | 5 |
| Interest on fair value | - | - | **-** | (2,156,198) | **(2,156,198)** | 6 |
| Rental income | 3,200,000 | - | **3,200,000** | 3,263,135 | **63,135** | |
| Recoveries - Provision for bad debts | - | - | **-** | 51,536,433 | **51,536,433** | 7 |
| Training income | - | - | **-** | 300,563 | **300,563** | |
| Recoveries - Unallocated receipts, JPC, Fuel | - | - | **-** | 9,211,934 | **9,211,934** | 6.1 |
| Insurance claims income | 6,000,000 | (500,000) | **5,500,000** | 10,875,747 | **5,375,747** | 8 |
| Interest received - investment | - | - | **-** | 20,649,588 | **20,649,588** | 9 |
| **Total revenue from exchange transactions** | **81,267,057** | **5,999,943** | **87,267,000** | **150,963,479** | **63,696,479** | |
| **REVENUE FROM NON-EXCHANGE TRANSACTIONS** | | | | | | |
| **TRANSFER REVENUE** | | | | | | |
| Developers' contribution | 12,000,000 | 26,000,000 | **38,000,000** | 52,879,110 | **14,879,110** | 10 |
| Subsidy - The City of Johannesburg Metropolitan Municipality | 721,067,000 | 40,000,000 | **761,067,000** | 761,067,000 | **-** | |
| **Total revenue from non-exchange transactions** | **733,067,000** | **66,000,000** | **799,067,000** | **813,946,110** | **14,879,110** | |
| **Total revenue** | **814,334,057** | **71,999,943** | **886,334,000** | **964,909,589** | **78,575,589** | |
| **EXPENDITURE** | | | | | | |
| Employee related costs | (377,907,000) | (38,000,000) | **(415,907,000)** | (386,801,713) | **29,105,287** | 11 |
| Actuarial gains/ losses on post-retirement benefits | - | - | **-** | 12,417,964 | **12,417,964** | 15 |
| Depreciation and amortisation | (25,806,000) | (2,000,000) | **(27,806,000)** | (31,022,565) | **(3,216,565)** | 12 |
| Finance costs | (3,000,000) | 2,000,000 | **(1,000,000)** | (8,173,373) | **(7,173,373)** | 16 |
| Hostel charges | (1,389,875) | 103,965 | **(1,285,910)** | (1,265,264) | **20,646** | |
| Repairs and maintenance (property, plant and equipment) | (16,646,649) | (3,353,351) | **(20,000,000)** | (12,920,799) | **7,079,201** | 13 |
| Bursaries and subsidised education | (1,380,000) | (432,000) | **(1,812,000)** | (1,485,077) | **326,923** | |
| Safety related expenses | (55,384) | (82,616) | **(138,000)** | (29,780) | **108,220** | |
| General Expenses and direct cost for operations | (388,149,144) | (30,235,946) | **(418,385,090)** | (353,787,947) | **64,597,143** | 14 |
| **Total expenditure** | **(814,334,052)** | **(71,999,948)** | **(886,334,000)** | **(783,068,554)** | **103,265,446** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Approved Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| **Surplus before taxation** | **5** | **(5)** | **-** | **181,841,035** | **181,841,035** |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **5** | **(5)** | **-** | **181,841,035** | **181,841,035** |

# Statement of Comparison of Budget and Actual Amounts

**Comments on Statement of Comparison of Budget and Actual Amounts**

## Statement of Comparison of Budget and Actual Amounts

**(Comments are provided for variances which are not in-line with the Annual Budget. The comparison is between twelve months actual amounts as at 30 June 2015 vs the 2014/2015 Annual Budget**)

**Comments are provided on variances in excess of R2 Million**

1. The fees are charged to the Gauteng Department of Roads and Transport for maintenance work carried out by JRA on their behalf. The maintenance is done as and when required by the Department.
The fees are below budget due to the fewer orders being received from the Gauteng Department of Roads and Transport. There were additional interruptions due to the industrial action that took place from February to April 2015.

2. Asphalt sales represent the external sales of asphalt. The actual figure is below budget due to the industrial action that occurred from February to April 2015. There were also interruptions in the production process due to shortages of bitumen which ultimately affected sales of asphalt to third parties. The bulk of asphalt produced was used for internal purposes and to a small portion sold to third parties.

3. The jobbings represent work done for third parties in relation to construction of parking spaces, foot ways and similar activities on an ad hoc basis. The revenue earned is under budget due interruptions caused by industrial action taking place from February to April 2015 of the financial year.

4. The re-instatement income is earned from third parties who have carried out work on the JRA roads or infrastructure to install, repair or replace items such as cables, water pipes and power lines. The third parties include Telkom, Eskom and Joburg Water. The income is below the budget due to fewer requests for re-instatements being received. The bitumen shortages also affected the service delivery during the second half of the year.

5. Management fees are earned on capital expenditure at the rate of 2.50% and this is applicable to all sources of funding except for operating capital expenditure. Management fees is below budget due to lower capital budget spend (Approx 71% was spent during the year)

6. The amount represents the fair value adjustment of debtors and the JRA did not budget for the fair value adjustment. The amount has decreased compared to last year by approximately R 1 million.

6.1. The recoveries relates to fuel recoveries, JPC account closure recovery, reversal of long outstanding logged payments and the gratuity provision reversal. No budget was allocated for the year.

7. This amount represents the monies recovered from the CoJ for unclaimed capital expenditure which was previously impaired and included in the provision for impairment amount. The CoJ paid the monies to JRA in April 2015 and JRA reversed the impairment provision. JRA had not anticipated the recovery of the monies and had provided for the debtor therefore the recovery was not budgeted for.

8. Insurance claims income is received for claims submitted in relation to damaged traffic signals, lost assets and other insured items. The actual amount received is above budget as more claims were lodged due to vandalism that occurred during the year.

9. The company had a favourable bank balance throughout the financial year which resulted in interest income being earned. Management does not budget for interest as it was not deemed prudent for the entity income budget process.

10. These are funds received from CoJ Planning Department relating to contributions made by developers to compensate for the increased usage of the existing infrastructure network. The budget was based on the previous year's actual amounts. The current year actual amount is above budget due to more funds being allocated to JRA by CoJ Planning Department.

11. The actual amount for the salaries is under budget due to the labour recovery for the Resurfacing Department (RSD) depot which carries out capital projects on behalf of the CoJ. Employees who embarked on the industrial action were not paid. The under spending was also contributed by the reversal of the performance bonus provision of R 8 million due to the entity not meeting the performance targets for the 2014-2015 financial year.

12. The JRA has expanded the asset base. There were additions of R 42.8 million during the year and this has

## Statement of Comparison of Budget and Actual Amounts

lead to an increase in depreciation and amortisation costs as compared to the budgeted amount.

13. The repairs and maintenance expenditure was under budget as most of the buildings were undergoing major renovations which were capitalised.

14. There was a saving on contractors-general line item due to a shift towards undertaking work through the Jozi@work programme which is more competitive compared to well established entities. Furthermore, operations performed by contractors that were appointed for re-instatements and jobbings were curtailed in order to support community based programmes. There was also a saving on the leases as JRA purchased its own plant and equipment. The actual figures for the twelve month period to 30 June 2015 are generally within the budget for the period.

15. The actuarial gains and losses on post retirement benefits are not budgeted. The entity had a significant decrease in qualifying members for the post-retirement medical aid due to members not meeting the retirement criteria and thereby resulting in the increase in actuarial gain.

16. The increase in finance costs is mainly from the interest costs charged on post retirement benefits per the actuarial valuation.

The actual for the twelve month period to 30 June 2015 are generally within the budget for the period.

# Accounting policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

### 1.1 Going concern assumption

These annual financial statements have been prepared based on the assumption that the entity will continue to operate as a going concern for at least 12 months after the reporting date.

### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

#### Loans and receivables

The entity assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in the statement of financial performance.

The allowance for impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition.

#### Allowance for doubtful debts

An impairment loss is recognised in the statement of financial performance when there is objective evidence that debtor is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Allowance for slow moving, damaged and obsolete inventory

The purpose for the allowance for inventory is to write inventory down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost of sale on certain inventory items. The write down is included in the operating surplus note.

#### Fair value estimation

Techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments.

#### Impairment testing

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each asset.

#### Taxation

## Accounting policies

**1.2 Significant judgements and sources of estimation uncertainty (continued)**

Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

**Post-retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

**Provisions**

Provisions are raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

**Effective interest rate**

The entity used the City of Johannesburg Metropolitan Municipality borrowing rates as a basis for discounting financial instruments.

**Useful lives of property, plant and equipment**

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the entity.

**Commitments**

The commitments are in accordance to GRAP 20 which is applicable on the accrual basis of accounting in identifying and disclosing related party relationships, transactions and balances at year-end.

**Events after reporting date**

Financial effects of subsequent events and commitments that may have a material effect on the financial position or financial performance of the entity.

# Accounting policies

### 1.3 Property plant and equipment

Property plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property plant and equipment is initially measured at cost.

The cost of an item of property plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property plant and equipment, the carrying amount of the replaced part is derecognised.

Property plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

# Accounting policies

### 1.4 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values over three years.

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

# Accounting policies

### 1.5 Financial instruments

#### Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

#### Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are initially measured at fair value plus any transaction costs.

#### Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit when there is objective evidence that a financial asset impaired. The impairment is measured as the difference between the financial asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are recognised in the statement of financial performance.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in the statement of financial performance.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in the statement of financial performance within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Fair value determination

Fair value information for trade and other receivables is determined as the present value of discounted estimated future cash flows.

### 1.5 Financial instruments (continued)

#### Loans to (from) shareholder

These include loans to and from the controlling municipality and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of financial performance when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (each debtor is evaluated separately on the basis of its circumstances) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the allowance is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either
- has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially of all risks and rewards of the asset, but has transferred control of the asset.

### 1.5 Financial instruments (continued)

Where the entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the entity could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

**Financial liabilities and equity instruments**

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

### 1.6 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in the statement of financial performance for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

# Accounting policies

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Assets held under finance leases are depreciated over the term of the lease.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

# Accounting policies

### 1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Discontinued operations

Discontinued operation is a component of an entity that has been disposed of and represents a distinguishable activity, group of activities or geographical area of operations, is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations and is a controlled entity acquired exclusively with a view to resale.

Discontinued operation is disclosed when a decision to dispose of a cash generating component of the entity which is clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity has been made.

### 1.10 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as part of net assets.

### 1.11 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

Actuarial gains or losses are recognised in full in the period in which they arise as income or expenditure.

# Accounting policies

### 1.11 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets in the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

### 1.12 Provisions

#### 1.12.1 Provisions

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

#### 1.12.2 Contingencies

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

# Accounting policies

**1.12 Provisions (continued)**

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

**1.12.3 Commitments**

A commitment is an obligation arising from an existing contract, agreement or legislative enactment or regulation that will become an actual liability upon the fulfillment of specified conditions.

Commitments arise when a decision is made to incur a liability in the form of a contract or similar documentation. Expenditure on assets which has been authorised, but not yet spent at the end of a financial period is disclosed under commitments in the notes to the financial statements.

**1.13 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

# Accounting policies

### 1.13 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

**Interest and other Income**

**Interest**
Interest is recognised, in surplus or deficit, using the effective interest rate method.

**Recoveries**.

Recoveries are recognised as revenue in the period the actual recovery occurs and when assessed and deemed necessary by management in the period of assessment.

### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Developers' Contribution**

Developers contribution relates to payments made by developers for engineering fees. The proceeds are recorded in the statement of financial performance in the year in which they are received.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and

# Accounting policies

**1.14 Revenue from non-exchange transactions (continued)**

- to the extent that there has been compliance with any restrictions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

**Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

**1.15 Value Added Tax (VAT)**

The Johannesburg Roads Agency is a registered Vat Vendor in terms of the Vat Act.

**1.16 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

**1.17 Translation of foreign currency transactions**

**Foreign currency transactions**

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in the statement of financial performance in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in the statement of financial performance, any exchange component of that gain or loss is recognised in the statement of financial performance.

## Accounting policies

### 1.17 Translation of foreign currency transactions (continued)

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

### 1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure as defined in section 32(2)(b) of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements is recorded in the irregular expenditure register.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end is recorded in the irregular expenditure register.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the Board is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps are thereafter being taken to recover the amount from the person concerned.

If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto is recorded against the relevant programme/expenditure item, disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

# Accounting policies

### 1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.23 Housing subsidies

The entity provides post-retirement housing subsidies for qualifying staff members and is paid by the City of Johannesburg.

### 1.24 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

### 1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### 1.26 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.27 Budget information

Entity is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 1/07/2014 to 30/06/2015.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.28 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the City of Johannesburg Metropolitan Municipality. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

# Accounting policies

**1.28 Related parties (continued)**

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with GRAP 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Managing Director and Senior Managers as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the entity.

### 2. NEW/ REVISED STANDARDS AND INTERPRETATIONS

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| **Standard/ Interpretation Detail:** | Standard/ Interpretation: | Effective date: Financial years beginning on or after |
| --- | --- | --- |
| GRAP 105 | Transfer of functions between entities under common control | 1 April 2014 |
| GRAP 106 | Transfer of functions between entities not under common control | 1 April 2014 |
| GRAP 107 | Mergers | 1 April 2014 |
| IGRAP 11 | Consolidation - Special purpose entities | 1 April 2014 |
| IGRAP 12 | Jointly controlled entities - Non-monetary contributions by ventures | 1 April 2014 |
| GRAP 6 (Revised 2010) | Consolidated and Separate Financial Statements | 1 April 2014 |
| GRAP 7 (Revised 2010) | Investment in Associates | 1 April 2014 |
| GRAP 8 (Revised 2010) | Interests in Joint Ventures | 1 April 2014 |

#### 2.2 Standards and Interpretations early adopted

The entity did not have any early adopted standards and interpretations in the current year.

# Notes to the annual financial statements

## 2. NEW/ REVISED STANDARDS AND INTERPRETATIONS (continued)

### 2.3 Standards and interpretations issued, but not yet effective

At the date of authorisation of these Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| GRAP 18 - Segment Reporting | 1/4/2016 | None |
| GRAP 32 - Service Concession Arrangements: Grantor | 1/4/2015 | None |
| GRAP 108 - Statutory Receivables | 1/4/2015 | None |
| IGRAP 17 - Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 1/4/2015 | None |
| GRAP 20 - Related Party | 1/4/2015 | None |

All Standards and Interpretations will be adopted at their effective date (except those Standards and Interpretations that are not applicable to the Johannesburg Road Agency).

## 3. INVENTORIES

| | | |
|---|---|---|
| Inventories | 18,772,002 | 29,569,388 |
| Consumable stores | 3,784,470 | 1,608,897 |
| | 22,556,472 | 31,178,285 |
| Provision for slow-moving and obsolete inventory | (2,664,283) | (3,991,723) |
| | **19,892,189** | **27,186,562** |

| **Detailed Inventory types** | | |
|---|---|---|
| Traffic signal equipment (cables, controllers, LED's.) | 8,539,074 | 15,189,185 |
| Raw material (sand and stone) | 2,296,343 | 3,968,291 |
| Road maintenance (kerbs, concrete products, polymer concrete.) | 5,939,192 | 7,323,175 |
| Other Material | 1,998,172 | 3,088,737 |
| | **18,772,781** | **29,569,388** |

### 3.1 Cost of inventory expensed

| | | |
|---|---|---|
| Inventories recognised as an expense during the year (Refer to note 19) | 50,639,814 | 44,314,462 |

The Johannesburg Roads Agency does not have any assets held as security, surety or pledge.

## 4. LOANS FROM SHAREHOLDER

The terms and conditions of the loans remained the same during the year. The entity did not default on any of the interest or capital repayments.

**Fair value of loans from shareholder**

The fair value of the loans to and from shareholders approximates to the carrying amounts because the loans are measured at amortised cost using the effective interest rate method.

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 5. TRADE AND OTHER RECEIVABLES

| | | |
|---|---|---|
| Trade receivables | 31,139,497 | 47,117,927 |
| SANRAL - Prepayment | 43,368,821 | 28,070,175 |
| Eskom deposit | 150,000 | 150,000 |
| SARS P A.Y.E | 3,782,045 | 3,682,043 |
| Prepayments - licenses | 72,963 | 18,228 |
| JPC Prepaid Commission | - | 9,706,793 |
| Developers Contribution WIP | 10,125,234 | 15,000,105 |
| City of Johannesburg Metropolitan Municipality Claims | 3,366,843 | 73,021,040 |
| Allowance for bad debts | (4,947,849) | (56,484,282) |
| Sundry debtors | 150,000 | 150,000 |
| Road & Transport - City Deep Prepayment | 22,499,087 | - |
| Related party receivables | 336,651,921 | 432,978,540 |
| Fair value adjustment to receivables | (3,586,251) | (4,174,217) |
| | **442,772,311** | **549,236,352** |

**5.1 Analysis of trade receivables**

| | | |
|---|---|---|
| Trade Receivables | 31,139,497 | 47,117,927 |
| SARS PAYE | 3,782,045 | 3,682,043 |
| Prepayments - licences | 72,963 | 18,228 |
| Eskom deposit | 150,000 | 150,000 |
| Sundry debtors | 150,000 | 150,000 |
| SANRAL Prepayment | 43,368,821 | 28,070,175 |
| Road & Transport - City Deep Prepayment | 22,499,087 | - |
| Discounting of receivables to fair value | (3,586,251) | (4,174,217) |
| Allowance for bad debts | (4,947,849) | (4,949,709) |
| | **92,628,313** | **70,064,447** |

**Trade receivables Related Party**

| | | |
|---|---|---|
| Gross related parties | 336,651,921 | 432,978,540 |
| JPC Prepaid Commission | - | 9,706,793 |
| Developers' contribution | 10,125,234 | 15,000,105 |
| City of Johannesburg Metropolitan Municipality claims | 3,366,843 | 73,021,040 |
| Allowance for bad debts | - | (51,534,573) |
| | **350,143,998** | **479,171,905** |

**Analysis of Receivables**

| | | |
|---|---|---|
| Gross receivables | 451,306,411 | 609,894,851 |
| Discounting of receivables to fair value | (3,586,251) | (4,174,217) |
| Allowance for bad debts | (4,947,849) | (56,484,282) |
| | **442,772,311** | **549,236,352** |

**5.2 City of Johannesburg Metropolitan Municipality Claims**

| | | |
|---|---|---|
| Capital expenditure (refer to 5.3) | 919,457,805 | 524,418,000 |
| USDG Amounts Claimed | (228,356,887) | (153,065,990) |
| City of Johannesburg Amounts Claimed | (691,100,918) | (371,352,010) |
| | **-** | **-** |

**Unclaimed capital expenditure - related parties**

| | | |
|---|---|---|
| Unclaimed capital expenditure | 3,366,843 | 73,021,040 |
| Impaired capital claims | - | (44,790,473) |
| | **3,366,843** | **28,230,567** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 5. TRADE AND OTHER RECEIVABLES (continued)

**5.3 Capital expenditure**

| | | |
| --- | --- | --- |
| Bridges | 100,768,825 | 84,171,000 |
| Capital expense for Johannesburg Roads Agency financed by the City of Johannesburg Metropolitan Municipality | 65,688,242 | 22,146,000 |
| Gravel roads | 147,385,742 | 61,563,000 |
| Storm water | 80,657,804 | 51,912,000 |
| Traffic signals | 58,743,928 | 78,217,000 |
| Rehabilitation and reconstruction of roads | 438,271,035 | 170,091,000 |
| Cabling | 14,731,641 | 9,955,000 |
| Complete street | 1,918,878 | 14,957,000 |
| Equipment | 11,291,710 | 31,406,000 |
| | **919,457,805** | **524,418,000** |

No trade and other receivables were pledged as security at 30 June 2015.

**Trade and other receivables past due but not impaired**

Trade and other receivables which are less than 3 months past due are not considered to be impaired.
At 30 June 2015, R 28,427,691 (30 June 2014: R 91 520 164) were 3 months past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
| --- | --- | --- |
| 1 month past due | 12,961,409 | 24,181,735 |
| Over 2 months past due | 935,559 | 23,343,677 |
| Over 3 months and above | 14,530,722 | 43,994,753 |
| | 28,427,691 | 91,520,164 |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 5. TRADE AND OTHER RECEIVABLES (continued)

**Trade and other receivables impaired**

As of 30 June 2015, trade and other receivables of R 4 947 849 (30 June 2014: R 56 484 282) were impaired and provided for.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.
The entity does not hold any collateral as security.

**Reconciliation of allowance for bad debts**

| | 2015 | 2014 |
| --- | --- | --- |
| Opening balance | (4,947,849) | (56,484,282) |

## Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 6. EMPLOYEE BENEFIT OBLIGATIONS

**Defined benefit plan**

The defined benefit plan is managed and provided by City of Johannesburg where the Johannesburg Roads Agency claims the funds used from City of Johannesburg

The plan is a post-employment medical benefit plan, post-retirement housing subsidy plan and post-retirement gratuity plan.

The actuarial valuation was performed for the year ended 30 June 2015 on the long term employee benefit liability with reference to GRAP 25.

**Post-retirement benefit plan**

6.1 Defined benefit plan

| | | |
|---|---|---|
| **Employee benefit obligation** | | |
| Post-retirement medical aid plan (6.1.1) | 8,115,423 | 25,779,000 |
| Post-retirement housing subsidy plan (6.1.2) | 2,955,105 | 974,000 |
| Post-retirement gratuity plan (6.1.3) | 34,817,365 | 32,291,000 |
| | **45,887,893** | **59,044,000** |

| | | |
|---|---|---|
| **Employee benefit asset** | | |
| Post-retirement medical aid plan (6.1.1) | 25,620,586 | 24,412,599 |
| Post-retirement gratuity plan (6.1.3) | 32,884,900 | 36,638,772 |
| | **58,505,486** | **61,051,371** |

**6.1.1 Post-retirement medical aid plan**

Post-retirement liability account

| | | |
|---|---|---|
| Opening balance | 25,779,000 | 26,870,000 |
| Unrecognised Actuarial (gains)/ losses | (19,950,367) | (3,624,000) |
| Net expense recognised in the statement of financial performance | 2,286,790 | 2,533,000 |
| | **8,115,423** | **25,779,000** |

(Net expense) / Surplus recognised in statement of financial performance

| | | |
|---|---|---|
| Current service cost | 283,000 | 444,000 |
| Interest cost | 2,253,000 | 2,089,000 |
| Benefits paid | (249,210) | - |
| Actuarial (gains)/ losses | (19,950,367) | (3,624,000) |
| | **(17,663,577)** | **(1,091,000)** |

Notional loan account

| | | |
|---|---|---|
| Opening balance | 24,412,599 | 23,184,956 |
| Interest received | 1,457,197 | 1,227,643 |
| Benefits paid | (249,210) | - |
| | **25,620,586** | **24,412,599** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 6. EMPLOYEE BENEFIT OBLIGATIONS (continued)

### 6.1.2 Post-retirement housing subsidy plan

Post-retirement liability account

| | | |
| --- | --- | --- |
| Opening balance | 974,000 | 1,100,000 |
| Unrecognised Actuarial (gains)/ losses | 1,862,105 | (249,000) |
| Net expense recognised in the statement of financial performance | 119,000 | 123,000 |
| | **2,955,105** | **974,000** |

Net expense recognised in the statement of financial performance

| | | |
| --- | --- | --- |
| Current service cost | 31,000 | 35,000 |
| Interest cost | 88,000 | 88,000 |
| Actuarial (gains) / losses | 1,862,105 | - |
| | **1,981,105** | **123,000** |

### 6.1.3 Post-retirement gratuity plan

Post-retirement liability account

| | | |
| --- | --- | --- |
| Opening balance | 32,291,000 | 39,524,000 |
| Benefits paid | (5,894,933) | (12,191,796) |
| Actuarial (gains)/ losses | 5,670,298 | 1,884,796 |
| Net effect recognised in the statement of financial performance | 2,751,000 | 3,074,000 |
| | **34,817,365** | **32,291,000** |

Net expense recognised in the statement of financial performance

| | | |
| --- | --- | --- |
| Interest cost | 2,751,000 | 3,074,000 |
| Actuarial (gains)/ losses | 5,670,298 | 1,884,796 |
| | **8,421,298** | **4,958,796** |

Notional loan account

| | | |
| --- | --- | --- |
| Opening balance | 36,638,802 | 46,375,011 |
| Interest received | 2,141,031 | 2,455,557 |
| Payments against account | (5,894,933) | (12,191,796) |
| | **32,884,900** | **36,638,772** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

**6. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

**Key assumptions used**

**Assumptions used at the reporting date:**

| | | |
|---|---|---|
| Actual return on plan assets (assumed prior year) | 8.94 % | 8.94 % |
| Discount rates used | 8.48 % | 7.06 % |
| Expected rate of return on assets (assumed prior year) | 6.79 % | 6.79 % |
| Salary inflation | 7.15 % | - % |
| Health care cost inflation rate | 7.65 % | - % |
| Net effective discount rate (PEMA) | 0.77 % | - % |
| Net effective discount rate (Housing & Gratuity) | 1.24 % | - % |

The basis on which the variables have been determined are as follows:

**Discount Rate.** The market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. A discount rate of 8.48% per annum has been used. The corresponding index-linked yield at this term is 1.72%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2015. The rate is calculated by using a weighted average of yields for the four components of the liability.

**Health Care Cost Inflation Rate.** A healthy care cost inflation rate of 7.65% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.15%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.77% which derives from ((1+8.48%)/(1+7.65%))-1.

**Salary Inflation rate.** This assumption is required to reflect estimated future salaries of the lump sum gratuity beneficiaries. Housing subsidies are expected to increase in line with salary inflation. Salaries are expected to increase at a rate which is 1% above the long-term expected inflation assumption.

**Demographics Assumptions:**
Pre-retirement Mortality
SA85-90 ultimate table, adjusted for lives.

Post-retirement Mortality
PA (90) ultimate table

**6. EMPLOYEE BENEFIT OBLIGATIONS (continued)**

Average Retirement Age
Normal retirement age is 65. It has been assumed that employees will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

Continuation of Membership
It has been assumed that 95% of in-service medical scheme members will remain on the Municipality's health care arrangement should they stay until retirement.

Family Profile (retirees)
It has been assumed that 95% of in-service members on a health care arrangement at retirement will be married at retirement. Further, it has been assumed that husbands will be five years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

**Housing Subsidy**
It has been assumed that employees will receive the subsidy for a further ten years after retirement. The actuarial factors of mortality, salary escalation and discounting have been applied to this expected payment term.

**PEMA Subsidy**
It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

**Plan Assets**
Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

**Other assumptions**

A one percentage point change in assumed cost trends rates would have the following effects:

| | Change % R | Medical Aid R | Housing R | Gratuity R |
|---|---|---|---|---|
| Benefit inflation | - +1% | 866,409 | 118,250 | 2,452,914 |
| Benefit inflation | - -1% | (749,789) | (112,724) | (2,247,975) |
| Discount rate | - +1% | (744,028) | (301,657) | (2,202,182) |
| Discount rate | - -1% | 875,455 | 349,656 | 2,445,106 |
| Post retire mortality | - -1yr | 319,279 | 25,004 | - |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 2,251 | 5,604 |
| Bank balances | 425,737,966 | 96,600,761 |
| | **425,740,217** | **96,606,365** |

No cash and cash equivalents were pledged as security at 30 June 2015.

**Bank Accounts of Johannesburg Road Agency as at 30 June 2015:**
a) Standard Bank Charges Account - balance 30 June 2015 R0.00 (30 June 2014 : R 0.00)
b) ABSA Bank Developer's Contribution Account - balance 30 June 2015 (Closed) (30 June 2014 : R 0.00)
c) Standard Bank Trust Account - balance 30 June 2015 R0.00 (30 June 2014: R0.00)
d) ABSA Bank Trust Account - balance 30 June 2015 (Closed) (30 June 2014: R 865 260.65)
e) Standard Bank Operating Account - balance 30 June 2015 R0.00 (30 June 2014: R0.00)
g) ABSA Bank Operating Account - balance 30 June 2015 (Closed) (30 June 2014: R0.00)
h) Standard Bank Salaries Account - balance 30 June 2015 R0.00 (30 June 2014: R 0.00)
i) ABSA Bank Salaries Account - balance 30 June 2015 (Closed) (30 June 2014: R 217 425.57)
j) City of Johannesburg Intercompany Sweeping Account - balance 30 June 2015 R 425 737 966 (30 June 2014: R92 429 499.00)
k) Johannesburg Property Company (JPC) Portfolio Account - balance 30 June 2015 (Transferred) (30 June 2014: R 3 088 575.76)

The ABSA bank accounts were closed during the financial year and the JPC bank account was transferred in the previous year.

### 8. PROPERTY PLANT AND EQUIPMENT

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 17,293,715 | - | 17,293,715 | 17,293,715 | - | 17,293,715 |
| Buildings | 63,118,276 | (11,587,676) | 51,530,600 | 56,928,686 | (10,425,894) | 46,502,792 |
| Plant and equipment | 127,857,795 | (74,012,695) | 53,845,100 | 111,409,417 | (54,986,861) | 56,422,556 |
| Furniture and fittings | 14,861,277 | (8,282,906) | 6,578,371 | 9,442,257 | (7,502,447) | 1,939,810 |
| Motor vehicles | 22,005,011 | (6,699,405) | 15,305,606 | 20,802,919 | (3,667,396) | 17,135,523 |
| Office equipment | 7,826,239 | (2,992,179) | 4,834,060 | 3,798,123 | (2,773,742) | 1,024,381 |
| Computer equipment | 19,250,495 | (10,706,421) | 8,544,074 | 23,659,711 | (17,464,742) | 6,194,969 |
| Assets WIP | 1,592,709 | - | 1,592,709 | - | - | - |
| Tools and loose gear | 524,790 | (473,371) | 51,419 | 487,021 | (447,271) | 39,750 |
| **Total** | **274,330,307** | **(114,754,653)** | **159,575,654** | **243,821,849** | **(97,268,353)** | **146,553,496** |

**Reconciliation of property plant and equipment - 30 June 2015**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 17,293,715 | - | - | - | 17,293,715 |
| Buildings | 46,502,792 | 6,189,590 | - | (1,161,782) | 51,530,600 |
| Plant and equipment | 56,422,556 | 16,650,482 | (179,894) | (19,048,044) | 53,845,100 |
| Furniture and fittings | 1,939,810 | 5,482,229 | (2,377) | (841,291) | 6,578,371 |
| Motor vehicles | 17,135,523 | 1,406,251 | - | (3,236,168) | 15,305,606 |
| Office equipment | 1,024,381 | 4,412,540 | (95,301) | (507,560) | 4,834,060 |
| Computer equipment | 6,194,969 | 6,858,546 | (209,200) | (4,300,241) | 8,544,074 |
| Assets WIP | - | 1,592,709 | - | - | 1,592,709 |
| Tools and loose gear | 39,750 | 37,769 | - | (26,100) | 51,419 |
| | **146,553,496** | **42,630,116** | **(486,772)** | **(29,121,186)** | **159,575,654** |

### 8. PROPERTY PLANT AND EQUIPMENT (continued)

**Reconciliation of property plant and equipment - 30 June 2014**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 17,293,715 | - | - | - | 17,293,715 |
| Land and buildings | 44,264,285 | 3,317,897 | - | (1,079,390) | 46,502,792 |
| Plant and equipment | 27,893,193 | 41,952,830 | - | (13,423,467) | 56,422,556 |
| Furniture and fittings | 2,260,758 | 606,838 | (3,880) | (923,906) | 1,939,810 |
| Motor vehicles | 7,825,899 | 11,056,421 | - | (1,746,797) | 17,135,523 |
| Office equipment | 1,371,318 | 92,867 | - | (439,804) | 1,024,381 |
| Computer equipment | 8,571,049 | 1,993,040 | (21,083) | (4,348,037) | 6,194,969 |
| Tools and loose gear | 78,135 | - | - | (38,385) | 39,750 |
| | **109,558,352** | **59,019,893** | **(24,963)** | **(21,999,786)** | **146,553,496** |

**The following leased assets are included in Property, Plant and Equipment listed above**

**Assets subject to finance lease (Net carrying amount)**

| | 2015 | 2014 |
|---|---|---|
| Plant and equipment | 9,434,182 | 15,988,935 |
| Motor vehicles | 15,305,606 | 17,135,523 |
| | **24,739,788** | **33,124,458** |

The Johannesburg Roads Agency does not have any assets held as security, surety or pledge.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

Depreciation is provided on all property, plant and equipment other than freehold land and assets under construction, and commences when the assets are ready for its intended use. The useful life of items of property, plant and equipment have been assessed as follows:

| **Item** | Average useful life (years) |
|---|---|
| Building | 50 |
| Plant and equipment | 5 |
| Furniture and fittings | 6 |
| Motor Vehicles | 10 |
| Office equipment | 5 |
| Computer equipment | 3 |
| Tools and loose gear | 5 |

**8.1 Change in accounting estimate**

| | 2015 | 2014 |
|---|---|---|
| Depreciation | 2,539,409 | - |

Various movable assets and infrastructure assets with original remaining useful lives varying between 1-6 years have been revised in the beginning of the period to reflect a new depreciable amount and the actual pattern of service potential derived from these assets.

The effect on the current and future periods will be a decrease in the depreciation charge of R 2 539 402 in the current period and an equal increase in the depreciation charge of R 2 539 402 over the next period as per the above table.

### 9. INTANGIBLE ASSETS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 14,060,088 | (11,996,744) | 2,063,344 | 15,131,943 | (11,686,791) | 3,445,152 |
| Intangible assets under development | 15,231,097 | - | 15,231,097 | - | - | - |
| **Total** | **29,291,185** | **(11,996,744)** | **17,294,441** | **15,131,943** | **(11,686,791)** | **3,445,152** |

**Reconciliation of intangible assets - 30 June 2015**

| | Opening balance | Additions | Disposals | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software | 3,445,152 | 567,600 | (48,028) | (1,901,380) | 2,063,344 |
| Intangible assets under development | - | 15,231,097 | - | - | 15,231,097 |
| | **3,445,152** | **15,798,697** | **(48,028)** | **(1,901,380)** | **17,294,441** |

**Reconciliation of intangible assets - 30 June 2014**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 2,662,717 | 2,587,951 | (1,805,516) | 3,445,152 |

The Johannesburg Roads Agency does not have any intangible assets held as security, surety or pledge.

**Other information**

Intangible assets under development relates to the ring fenced SAP project which includes an amount of R 2 300 000 for SAP Preferred Card. The cost analysis and allocation of the project will be assessed on completion of the project. Management is in the process of customising the All in One SAP package to meet the business specific needs. The committment amount of customisation cannot be quantified as at 30 June 2015.

### 10. FINANCIAL INSTRUMENTS

| Financial Assets 30 June 2015 | 0-30 Days | 30-60 Days | 60-90 Days | >90 Days | Total |
|---|---|---|---|---|---|
| Receivables | 334,494,696 | 12,961,409 | (109,792) | 15,576,073 | 362,922,386 |

| Financial Liabilities 30 June 2015 | 0-30 Days | 30-60 Days | 60-90 Days | >90 Days | Total |
|---|---|---|---|---|---|
| Payables | 39,134,017 | 240,769 | 980 | 58,225 | 39,433,991 |

| Financial Assets 30 June 2014 | 0-30 Days | 30-60 Days | 60-90 Days | >90 Days | Total |
|---|---|---|---|---|---|
| Receivables | 386,192,759 | 24,181,735 | 23,343,677 | 43,994,753 | 477,712,924 |

| Financial Liabilities 30 June 2014 | 0-30 Days | 30-60 Days | 60-90 Days | >90 Days | Total |
|---|---|---|---|---|---|
| Payables | 73,421,316 | 117,294 | 5,555,114 | 1,958,806 | 81,052,530 |

| Financial Assets | Carrying Amount 30 June 2015 | Carrying Amount 30 June 2014 | Fair Value 30 June 2015 | Fair Value 30 June 2014 |
|---|---|---|---|---|
| Receivables | 446,358,562 | 553,410,569 | 442,772,311 | 545,062,135 |
| Cash and cash equivalents | 425,740,217 | 96,606,365 | 425,740,217 | 96,606,365 |
| | **872,098,779** | **650,016,934** | **868,512,528** | **641,668,500** |

| Financial Liabilities | Carrying Amount 30 June 2015 | Carrying Amount 30 June 2014 | Fair Value 30 June 2015 | Fair Value 30 June 2014 |
|---|---|---|---|---|
| Payables | 674,209,017 | 643,301,257 | 674,013,403 | 642,591,044 |
| Provisions | 29,099,578 | 39,479,548 | 29,099,578 | 39,479,548 |
| | **703,308,595** | **682,780,805** | **703,112,981** | **682,070,592** |

**30 June 2015**

Financial Assets by category

The carrying amounts presented in the statement of financial position relate to the following categories of assets:

| | Loans and receivables | Total |
|---|---|---|
| Trade and other receivables | 446,358,562 | 446,358,562 |
| Cash and cash equivalents | 425,740,217 | 425,740,217 |
| | **872,098,779** | **872,098,779** |

**30 June 2014**

| | Loans and receivables | Total |
|---|---|---|
| Trade and other receivables | 553,410,569 | 553,410,569 |
| Cash and cash equivalents | 96,606,365 | 96,606,365 |
| | **650,016,934** | **650,016,934** |

Financial Liabilities by category

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

**10. FINANCIAL INSTRUMENTS (continued)**

The carrying amounts presented in the statement of financial position relate to the following category of liabilities:

| **30 June 2015** | Amortised cost | Total |
|---|---|---|
| Trade and other payables | 674,209,017 | 674,209,017 |
| Provisions | 29,099,578 | 29,099,578 |
| | **703,308,595** | **703,308,595** |

| **30 June 2014** | Amortised cost | Total |
|---|---|---|
| Trade and other payables | 643,301,257 | 643,301,257 |
| Provisions | 39,479,548 | 39,479,548 |
| | **682,780,805** | **682,780,805** |

**11. DEFERRED TAX**

**Deferred tax asset/ (liability)**

| | 2015 | 2014 |
|---|---|---|
| Fixed assets - owned and leased | 6,927,141 | 9,274,848 |
| Finance lease liabilities | (7,421,786) | (9,686,945) |
| Provision for legal claims | (8,147,882) | (8,217,882) |
| Provision for impairment of debtors | (1,381,934) | (15,776,060) |
| Provision for leave pay | (7,096,684) | (6,555,308) |
| Provision for bonuses | - | (2,836,392) |
| Retirement benefit liability | (12,848,610) | (16,532,320) |
| Retirement benefit asset | 16,381,536 | 17,094,384 |
| Provision for housing subsidy | - | (272,720) |
| Discounted debtors | (1,004,150) | (1,168,780) |
| Discounted creditors | (54,772) | (99,430) |
| Provision for 13th cheque | (2,734,960) | (2,513,969) |
| Income received in advance | - | (2,156,006) |
| Calculated loss | (30,660,349) | (37,529,960) |
| Deferred tax asset not recognised | 48,042,450 | 76,976,540 |
| | - | - |

**Recognition of deferred tax asset**

The deferred tax Note will be updated at year end. No deferred tax asset was provided for due to the improbability of future taxable profits. The deferred tax asset had it been raised would have been R 48 042 450.56.

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 12. DISCONTINUED OPERATIONS

The City of Johannesburg decided to transfer the advertising revenue portfolio account budget to Johannesburg Property Company which was under the Johannesburg Road Agency in the 2013/2014 financial year. The assets and liabilities of the discontinued operations are set out below.

The advertising revenue portfolio account will be fully controlled by Johannesburg Property Company (JPC).

The effective date of the transfer was 1 July 2014.

**Surplus**

| | | |
|---|---|---|
| Revenue | - | 39,871,915 |
| Expenses | - | (9,347,044) |
| | **-** | **30,524,871** |

**Assets and liabilities**

| | | |
|---|---|---|
| **Assets of disposal groups** | | |
| Trade and other receivables | - | 22,408,676 |
| Other receivables- JPC prepaid commission | - | (9,706,793) |
| Bank | - | 3,088,576 |
| **Liabilities of disposal groups** | | |
| Trade payables - outdoor advert payments | - | (38,827,186) |

## 13. FINANCE LEASE OBLIGATION

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 10,519,708 | 9,909,079 |
| - in second to fifth year inclusive | 15,296,913 | 19,918,338 |
| - later than five years | 689,757 | 4,780,599 |
| | 26,506,378 | 34,608,016 |
| **Present value of minimum lease payments** | **26,506,378** | **34,608,016** |
| Non-current liabilities | 15,986,670 | 24,698,937 |
| Current liabilities | 10,519,708 | 9,909,079 |
| | **26,506,378** | **34,608,016** |

It is the entity's policy to lease certain assets under finance leases.

The average lease term is 3 years and the average effective borrowing rate is 10%.

The entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

## Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 14. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | 365,292,027 | 319,905,849 |
| Payments received in advance Jobbings | 11,159,248 | 11,223,931 |
| City of Johannesburg amount received in advance | 89,285,538 | 85,874,872 |
| Accrued leave pay | 25,345,299 | 23,411,816 |
| Accrued staff 13th cheque | 9,767,715 | 8,978,460 |
| Gratuity accrued | - | 718,535 |
| Retentions | 66,103,609 | 31,917,202 |
| Payroll accruals | 4,120,973 | 3,867,013 |
| Donations | 223,500 | 223,500 |
| Capital expenditure accruals | - | 5,879,704 |
| Logged payments | 4,071,505 | 7,700,020 |
| Payments received in advance (JPC) | - | 38,827,186 |
| Value Added Tax (VAT) | 72,859,765 | 36,528,457 |
| Related party payables | 25,979,838 | 68,244,712 |
| Fair value adjustments to payables | (195,614) | (355,108) |
| | **674,013,403** | **642,946,149** |

### 15. PROVISIONS

**Reconciliation of provisions - 30 June 2015**

| | Opening Balance | Amount utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|
| Legal claims | 29,349,578 | (250,000) | - | 29,099,578 |
| Performance Bonus | 10,129,970 | (8,081,532) | (2,048,438) | - |
| | **39,479,548** | **(8,331,532)** | **(2,048,438)** | **29,099,578** |

**Reconciliation of provisions - 30 June 2014**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Legal proceedings | - | 29,349,578 | - | 29,349,578 |
| Performance Bonus | 8,029,962 | 10,129,970 | (8,029,962) | 10,129,970 |
| | **8,029,962** | **39,479,548** | **(8,029,962)** | **39,479,548** |

The performance bonus provision raised at year end is paid based on the overall company performance.
The legal claims provision relates to the litigation in progress that is likely to be paid by Johannesburg Road Agency based on the previous legal actions taken against the entity. The Legal claims emanates from supply chain related matters which occurred in the past and the employment related matters from former and current employees against JRA.

### 16. SHARE CAPITAL

| | | |
|---|---|---|
| **Authorised** | | |
| 1000 Ordinary shares of R1 each | 1,000 | 1,000 |
| **Reconciliation of number of shares issued:** | | |
| Reported as at 01 July, 2014 | 1,000 | 1,000 |
| **Issued** | | |
| 1000 Ordinary shares of R1 each | 1,000 | 1,000 |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 17. CONTRIBUTION FROM OWNER

| | | |
|---|---|---|
| Opening Balance | 123,014,187 | 89,310,982 |
| Contributions made | 58,430,429 | 33,703,205 |
| | **181,444,616** | **123,014,187** |

This equity loan is non-interest bearing and there are no fixed repayment terms. The funding from the City of Johannesburg is utilised to purchase assets and fund other operating costs based on the budget allocation.

### 18. REVENUE

**Revenue arising from exchange transactions is as follows:**

| | | |
|---|---|---|
| Gautrains' maintenance fees | 5,788,000 | 5,746,000 |
| Asphalt sales | 768,814 | 7,734,940 |
| Jobbings | 18,754,029 | 29,745,351 |
| Reinstatement Income and Wayleave Fees | 11,572,762 | 29,183,339 |
| Tender Deposits | 2,612,885 | 1,180,265 |
| Management fees | 17,785,787 | 11,072,821 |
| Fair value adjustment | (2,156,198) | (3,146,697) |
| **Total revenue from exchange transaction** | **55,126,079** | **81,516,019** |

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| Developer's contribution | 52,879,110 | 40,721,161 |
| Subsidy - The City of Johannesburg Metropolitan Municipality | 761,067,000 | 651,103,000 |
| **Total Revenue from non-exchange transactions** | **813,946,110** | **691,824,161** |
| **Total revenue** | **869,072,189** | **773,340,180** |

### 19. COST OF ROAD MAINTENANCE

| | | |
|---|---|---|
| **Services rendered** | | |
| Raw materials (Refer to Note 3.1) | 50,639,814 | 44,314,462 |
| Direct labour costs of road maintenance and related infrastructure (refer to note 22) | 283,327,411 | 249,639,157 |
| Direct expenses | 111,671,120 | 104,115,321 |
| | **445,638,345** | **398,068,940** |

### 20. OTHER INCOME

| | | |
|---|---|---|
| Rental income - third party | 3,263,135 | 2,911,434 |
| Recoveries - Provision on bad debts | 51,536,433 | - |
| Training income | 300,563 | - |
| Recoveries - Unallocated receipts, JPC, Fuel | 9,218,375 | 358,175 |
| Penalties | - | 87,719 |
| Insurance claims | 10,875,747 | 7,858,846 |
| | **75,194,253** | **11,216,174** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 21. OPERATING SURPLUS

Operating surplus of R 169 364 820 for the year is stated after accounting for the following:

| | | |
|---|---|---|
| **Operating lease charges** | | |
| Equipment | | |
| • Contractual amounts | 223,031 | 273,847 |
| Lease rentals on operating lease - Other | | |
| • Contractual amounts | 798,164 | 677,300 |
| | **1,021,195** | **951,147** |

| | | |
|---|---|---|
| Amortisation on intangible assets | 1,901,380 | 1,805,516 |
| Depreciation on property, plant and equipment | 29,121,185 | 21,999,784 |
| Employee costs | 103,622,336 | 109,020,601 |
| Employee Costs - Road maintenance and related infrastructure: refer to note 19 | 283,327,411 | 249,639,157 |

## 22. EMPLOYEE RELATED COSTS

| | | |
|---|---|---|
| Employee related costs : Salaries and wages | 63,199,075 | 51,444,958 |
| Employee related costs : Interns stipend | 1,884,712 | - |
| Housing benefits and allowances | 3,088,501 | 1,273,321 |
| Bonus | (2,413,464) | 10,442,661 |
| Travel, motor car, accommodation, subsistence and other allowances | 7,952,212 | 14,420,449 |
| Unemployment Insurance Fund | 571,456 | 727,131 |
| Compensation for Occupational Injuries and Disease | 2,239,850 | 2,624,250 |
| Skills Development Levies | 1,105,104 | 1,261,564 |
| Pension and Leave | 25,994,890 | 26,826,267 |
| | **103,622,336** | **109,020,601** |

**Remuneration of executive management**

| | | |
|---|---|---|
| Annual salary | 8,180,009 | 6,196,032 |
| Bonuses (Performance and Annual) | 816,714 | 465,654 |
| Allowances (Travel and Cellphone) | 1,038,521 | 894,088 |
| Contributions to UIF, Medical and Pension Funds | 818,417 | 1,125,246 |
| | **10,853,661** | **8,681,020** |

**Remuneration of non-executive directors**

| | | |
|---|---|---|
| Directors fees | 1,353,830 | 759,929 |

**Reconciliation of employee costs**

| | | |
|---|---|---|
| Employee costs -Road maintenance and related infrastructure (refer to note 19) | 283,327,411 | 249,639,157 |
| Employee costs - Indirect | 103,622,336 | 109,020,601 |
| | **386,949,747** | **358,659,758** |

## Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 23. INVESTMENT INCOME

| | | |
|---|---|---|
| **Interest income** | | |
| Bank | 17,905,423 | 8,093,218 |
| Interest income - advertising | - | 23,203 |
| Fair value adjustments | 2,744,165 | 2,255,577 |
| | **20,649,588** | **10,371,998** |

### 24. DEPRECIATION AND AMORTISATION

| | | |
|---|---|---|
| Property plant and equipment | 29,121,185 | 21,999,784 |
| Intangible assets | 1,901,380 | 1,805,516 |
| | **31,022,565** | **23,805,300** |

### 25. FINANCE COSTS

| | | |
|---|---|---|
| Interest charged - Intercompany | 5,376,122 | 2,620,356 |
| Finance leases | 2,637,757 | 1,858,885 |
| Fair value adjustments on purchases | 357,453 | 871,748 |
| Fair value adjustments on payables | (197,959) | (438,154) |
| | **8,173,373** | **4,912,835** |

### 26. TAXATION

**Major components of the tax expense**

| | | |
|---|---|---|
| **Current** | | |
| Current tax expense | - | - |
| **Deferred** | | |
| Deferred tax expense | - | - |

**Reconciliation of the tax expense**

Reconciliation between accounting surplus and tax expense.

| | | |
|---|---|---|
| Accounting surplus | 181,841,035 | 120,434,380 |
| Tax at the applicable tax rate of 28% (2014: 28%) | 50,915,490 | - |
| **Tax effect of expenses that are not deductible in determining taxable income:** | | |
| Depreciation on non-manufacturing buildings | 325,299 | - |
| Effect of previously and unused tax losses and deductible temporary difference now recognised as deferred tax assets | (51,240,789) | - |
| **Income tax expense** | **-** | **-** |

No provision has been made for 2015 tax as the entity applied the Section 24C allowance, which allows the entity to deduct for future expenditure. The estimated tax loss available for set off against future taxable income is R - (2014: R -).

### 27. AUDITORS' REMUNERATION

| | | |
|---|---|---|
| Fees | 2,138,318 | 1,704,332 |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 28. CASH GENERATED FROM OPERATIONS

| | 2015 | 2014 |
|---|---|---|
| Surplus | 181,841,035 | 120,434,382 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 31,022,565 | 23,805,300 |
| Finance costs - Finance leases | 2,637,757 | 1,858,885 |
| Movements in retirement benefit assets and liabilities | (10,610,222) | 5,254,186 |
| Movements in provisions | (10,379,970) | 31,449,586 |
| Loss on assets written off | 534,800 | 24,966 |
| Movement in shareholders loan | 58,542,050 | 33,703,205 |
| Assets purchased through finance lease | - | 26,297,888 |
| Other non-cash items (fair value adjustments) | (111,616) | 289,249 |
| **Changes in working capital:** | | |
| Inventories | 7,294,373 | (8,659,932) |
| Trade and other receivables | 106,464,041 | (268,413,377) |
| Trade and other payables | 31,067,247 | 250,346,357 |
| | **398,302,060** | **216,390,695** |

## 29. COMMITMENTS

**Commitments in respect of capital expenditure:**

| | 2015 | 2014 |
|---|---|---|
| • Approved but not yet contracted for | 582,684,910 | 999,329,316 |
| • Authorised and contracted for | 832,556,090 | 297,880,684 |
| | **1,415,241,000** | **1,297,210,000** |

The above amount reflects the capital budget for the 2015/2016 year as reflected in the approved 2014/2015 fiscal year. The amount that is authorised and contracted for includes multi year awards and relates to the portion of the 2015/2016 capital budget at the date of signature of the financial statements.

| **This expenditure will be financed from:** | 2015 | 2014 |
|---|---|---|
| External Finance Funding | 536,241,000 | 367,000,000 |
| Capital Replacement Reserve | 500,000,000 | 574,183,400 |
| Urban Settlement Development Grant | 379,000,000 | 356,026,600 |
| | **1,415,241,000** | **1,297,210,000** |

**Operating leases - as lessee (Fleet)**

Operating lease payments represent rentals payable by the entity according to the fleet lease agreement from the City of Johannesburg Metropolitan Municipality. The fleet lease is for 5 years or more and will expire in 2018/19 financial year.

| **Minimum lease payments due** | 2015 | 2014 |
|---|---|---|
| - within one year | 12,681,225 | 12,791,228 |
| - in second to fifth year inclusive | 14,587,001 | 27,268,226 |
| | **27,268,226** | **40,059,454** |

**Operating leases – as lessee (Printers and Copiers)**

Operating lease payments represent rentals payable by the entity according to the rental agreement. The entity is on the month to month lease term. No contingent rent is payable.

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 30. CONTINGENCIES

**Economic entity**

**Johannesburg Roads Agency (Proprietary) Limited**

These are legal claims that have arisen in the normal course of business and represent the possible amounts that could be awarded should the claims succeed against the entity. No provision has been made as management believes the claims will not succeed. Refer to cases below:

Lucienne Nanetter Raab & Others v JRA & Others (The applicants for an order directing the respondents not to allow construction vehicle to gain access to a construction site from Fulwell road in Bryanston. The JRA has issued a way-leave to the developers to conduct the work.

Brian Bracher vs JRA. (JRA is sued for the flooding on Brian Bracher property as a result of the storm-water drain. The amount involved in the current year is not quantifiable).

Applemint vs JRA. JRA was served a letter of demand to do work on his property which has experienced a sinkhole as a result of the storm-water drain running through his property. Amount involved in the current year is not quantifiable.

Post-retirement medical aid benefits for certain former employees were withdrawn during the year which resulted in significant reduction in the post-retirement medical aid liability. There is risk that the beneficiaries with withdrawn benefits might sue the entity as they have been members of the post-retirement medical aid for more than 10 years.

| **Legal claims** | | |
|---|---|---|
| Midnight Moon Trading (Pty) Ltd (Dispute on quality of work) | 3,870,167 | 3,870,167 |
| PMPZ Construction vs JRA (The contact has sent a letter of demand through their attorneys for retention fees on work that was completed in Braamfishervile. The contract number is 023A/2010) | - | 249,678 |
| A Britz vs JRA (A warrant of execution was served on the JRA for outstanding of a bill of costs) | - | 2,502 |
| Dark Fibre Africa vs JRA (A letter of demand was served on the JRA for the payment of damages to optical fibre cables by workmen on site) | - | 42,038 |
| RCI Solutions V JRA - The plaintiff has served a letter of demand the JRA for payments on projects that they have worked on. | 3,012,123 | - |
| Ubuntu Kraal v JRA (The plaintiff is suing the JRA (3rd Respondent) for the flooding on their property since the construction of the BRT system. They allege that it narrowed the water channel and resulting in backwater effect on the flood flows which caused a diversion of the flood flows.) | - | 23,555,160 |
| Bareki Management Consulting v JRA (The plaintiff issued summons for payment of an outstanding invoice issued on or about the 15th May, 2011. | 159,373 | - |
| Khumoya Kgomotso v JRA (The plaintiff issued summons for the payment of an outstanding invoice.) | 3,650,066 | - |
| Shophi Ngema vs JRA (The complainant sought work for R150 000 to make up the R200 000 they were offered when they were appointed.) | - | 150,000 |
| Telkom SA SOC Ltd vs JRA (A special plea has been filed and awaiting the plaintiff to apply for a trial date herein ) | 24,999 | - |
| | **10,716,728** | **27,869,545** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 31. RELATED PARTIES

Relationships

| | |
|---|---|
| Directors | Refer to Directors' report note |
| Ultimate controlling entity | The City of Johannesburg Metropolitan Municipality |
| Controlling entity | The City of Johannesburg Metropolitan Municipality |
| Other members of the group | |
| | City of Johannesburg Property Company (Pty) Ltd |
| | City Power Johannesburg (Pty) Ltd |
| | Johannesburg City Parks and Zoo (Pty) Ltd |
| | Johannesburg Development Agency (Pty) Ltd |
| | Johannesburg Metropolitan Bus Services (Pty) Ltd |
| | Johannesburg Social Housing Company (Pty) Ltd |
| | Johannesburg Water (Pty) Ltd |
| | Pikitup Johannesburg (Pty) Ltd |
| | Johannesburg City Theatres (Pty) Ltd |
| | Johannesburg Fresh Produce Market (Pty) Ltd |
| | Constitutional Hill Development Company |
| Members of key management | Directors' remuneration |

**Related party balances**

| | 2015 | 2014 |
|---|---|---|
| **Amounts included in trade receivables regarding related parties** | | |
| The City of Johannesburg Metropolitan Municipality | 333,256,840 | 404,769,189 |
| City Power Johannesburg SOC Ltd | 14,090 | 5,331,981 |
| Johannesburg Water SOC Ltd | 3,150,114 | 21,598,974 |
| Johannesburg City Parks and Zoo | 80,940 | 708,396 |
| City of Johannesburg Transportation | - | 570,000 |
| Johannesburg Fresh Produce Market (Pty) Ltd | 149,937 | - |
| | **336,651,921** | **432,978,540** |

| | 2015 | 2014 |
|---|---|---|
| **Amounts included in trade payables regarding related parties** | | |
| The City of Johannesburg Metropolitan Municipality | 17,236,540 | 67,050,034 |
| Johannesburg Social Housing Company SOC Ltd | - | 167,659 |
| City Power Johannesburg SOC Ltd | - | 540,252 |
| Johannesburg Water SOC Ltd | 2,156 | 5,203 |
| Johannesburg City Parks and Zoo | 540,229 | 481,564 |
| Johannesburg Development Agency (Pty) Ltd | 8,200,913 | - |
| | **25,979,838** | **68,244,712** |

| | 2015 | 2014 |
|---|---|---|
| **Other related parties accounts** | | |
| The City of Johannesburg Metropolitan Municipality - Equity | (181,444,616) | (123,014,187) |
| The City of Johannesburg Metropolitan Municipality Post Retirement Benefits | 55,156,438 | 61,051,371 |
| The City of Johannesburg Metropolitan Municipality Specialised Vehicle Lease | (16,532,532) | (34,608,016) |
| The City of Johannesburg Metropolitan Municipality amount received in advance | (89,285,538) | (85,874,872) |
| City of Johannesburg Metropolitan Municipality Gratuity | 4,617,378 | 5,184,078 |
| City of Johannesburg Property Company SOC Ltd | - | 9,706,793 |
| | **(227,488,870)** | **(167,554,833)** |

| **Executive Management Salaries 30 June 2015** | Annual salary | Bonus | Allowances | Contributions | Total |
|---|---|---|---|---|---|
| Matsuma Samson Mohale - Head Corporate Services | 1,029,024 | 71,381 | 136,080 | 73,438 | 1,309,923 |

## Notes to the annual financial statements



**31. RELATED PARTIES (continued)**

| | | | | | |
|---|---|---|---|---|---|
| Makhubela Thulani Sydney - Head Planning | 982,841 | 92,871 | 139,920 | 98,596 | 1,314,228 |
| Seadimo Sindane - Head: Regional Operations (appointed March 2015) | 411,351 | - | 2,640 | 4,735 | 418,726 |
| Van Tonder Hendrik Johannes - Acting Head of Operations to (31/1/2015) | 382,275 | 32,104 | 132,637 | 96,533 | 643,549 |
| Fikile Ramatseba - HOD: Performance Governance & IT, MD'S Office (appointed February 2015) | 430,267 | - | 53,300 | 66,945 | 550,512 |
| Darryl Howard Thomas: Mobility and Freight | 1,045,887 | 156,148 | 136,080 | 75,319 | 1,413,434 |
| | **4,281,645** | **352,504** | **600,657** | **415,566** | **5,650,372** |

| **Executive Management Salaries 30 June 2014** | Annual Salary | Bonuses | Allowances | Contributions | Total |
|---|---|---|---|---|---|
| Matsuma Samson Mohale - Head Corporate Services (Appointed 1 August 2013) | 918,215 | - | - | 57,388 | 975,603 |
| Makhubela Thulani Sydney - Head Planning | 1,128,718 | 121,354 | - | 42,620 | 1,292,692 |
| Van Tonder Hendrik Johannes - Acting Head of Operations | 524,247 | 42,587 | - | 85,092 | 651,926 |
| Sylvia Lelaka - Head Corporate Services (1/7/2013 - 31/7/2013) | 166,786 | - | - | 2,452 | 169,238 |
| Mpho Henley Laurel Kau - Head Infrastructure Development | 997,280 | 132,387 | - | 160,506 | 1,290,173 |
| Darryl Howard Thomas: Mobility and Freight | 1,117,799 | - | - | 69,842 | 1,187,641 |
| | **4,853,045** | **296,328** | **-** | **417,900** | **5,567,273** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 31. RELATED PARTIES (continued)

**Related party transactions**

| Income from related parties | | |
|---|---|---|
| The City of Johannesburg Metropolitan Municipality - Subsidies | 761,067,000 | 651,103,000 |
| The City of Johannesburg Metropolitan Municipality - Other | 7,873,753 | 8,977,995 |
| City Power Johannesburg SOC Ltd | 144,050 | 282,578 |
| City of Johannesburg Property Company SOC Ltd | - | 13,401,201 |
| Johannesburg Water SOC Ltd | 8,469,737 | 19,994,662 |
| Johannesburg City Parks and Zoo | 235,684 | 788,410 |
| City of Johannesburg Transportation | - | 2,282,736 |
| Johannesburg Fresh Produce Market (Pty) Ltd | 131,524 | - |
| | **777,921,748** | **696,830,582** |

| Purchases from related parties | | |
|---|---|---|
| The City of Johannesburg Metropolitan Municipality | 26,695,484 | 32,932,686 |
| Johannesburg Water SOC Ltd | 20,917 | 23,779 |
| Johannesburg City Parks and Zoo | 2,452,528 | 786,139 |
| Johannesburg City Theatres | 52,632 | - |
| | **29,221,561** | **33,742,604** |

**Key management information**

| CLASS | DESCRIPTION | NUMBER |
|---|---|---|
| Non-executive board members | Excluding acting during the year | 9 |
| Independent audit committee members | Excluding acting during the year | 3 |
| Executive management | Excluding acting during the year | 6 |

# Notes to the annual financial statements

## 32. DIRECTORS' EMOLUMENTS

### Executive

**30 June 2015**

| | Annual Salary | Bonuses | Allowances | Contributions | Total |
|---|---|---|---|---|---|
| DS Macozoma - Managing Director (Resigned 30 June 2015) | 1,794,188 | 343,528 | 137,820 | 123,031 | 2,398,567 |
| GP Mbatha - Chief Financial Officer (CFO) | 1,209,529 | 87,432 | 127,920 | 110,608 | 1,535,489 |
| M Kau - Acting Managing Director (Appointed 11 May 2015) | 894,647 | 33,252 | 172,124 | 169,212 | 1,269,235 |
| | **3,898,364** | **464,212** | **437,864** | **402,851** | **5,203,291** |

**30 June 2014**

| | Annual Salary | Bonus | Allowances | Contributions | Total |
|---|---|---|---|---|---|
| DS Macozoma - Managing Director (Resigned 30 June 2015) | 1,689,100 | - | 137,820 | 113,185 | 1,940,105 |
| GP Mbatha - Chief Financial Officer (CFO) | 906,932 | 40,350 | 137,820 | 88,539 | 1,173,641 |
| | **2,596,032** | **40,350** | **275,640** | **201,724** | **3,113,746** |

### Non-executive

**30 June 2015**

| | Directors' fees | Total |
|---|---|---|
| J Manche (Chairperson) (Appointed) | 88,988 | 88,988 |
| M Ramasia (Appointed) | 21,678 | 21,678 |
| L Nxumalo | 126,160 | 126,160 |
| H Mashele | 218,306 | 218,306 |
| R Theunissen (Independent Audit Committee member) | 69,442 | 69,442 |
| L Mashamaite | 224,601 | 224,601 |
| A Torres | 158,278 | 158,278 |
| N Msezane | 105,212 | 105,212 |
| J Maina | 38,046 | 38,046 |
| KC Shubane (Resigned 4 February 2015) | 103,666 | 103,666 |
| SM Maimane (Resigned 4 February 2015) | 3,970 | 3,970 |
| J Maboa (Independent Audit Committee member) | 69,442 | 69,442 |
| ES Ngomane | 99,753 | 99,753 |
| D Nyalunga (Independent Audit Committee Member) | 26,288 | 26,288 |
| | **1,353,830** | **1,353,830** |

# Notes to the annual financial statements

**32. DIRECTORS' EMOLUMENTS (continued)**
**30 June 2014**

| | Directors' fees | Total |
|---|---|---|
| KC Shubane (Chairperson) | 126,979 | 126,979 |
| L Nxumalo | 90,290 | 90,290 |
| H Mashele | 118,050 | 118,050 |
| R Theunissen (Independent Audit Committee member) | 59,520 | 59,520 |
| L Mashamaite | 120,050 | 120,050 |
| SM Maimane | 52,584 | 52,584 |
| N Msezane | 52,580 | 52,580 |
| A Torres | 19,840 | 19,840 |
| J Maboa (Independent Audit Committee Member) | 49,600 | 49,600 |
| ES Ngomane | 65,476 | 65,476 |
| D Nyalunga | 4,960 | 4,960 |
| | **759,929** | **759,929** |

### 33. RISK MANAGEMENT

**Financial risk management**

The entity’s activities expose it to a variety of financial risks arising from the use of financial instruments during the ordinary course of business. The entity does not speculate in the trading of derivative instruments.

Risks to which the entity is exposed to can be classified into the following major categories:

**Liquidity risk**

The entity’s risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

**Interest rate risk**

As the entity has no significant interest-bearing assets, the entity’s income and operating cash flows are substantially independent of changes in market interest rates.

The entity’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the entity to fair value interest rate risk.

The entity's exposure to interest rate risk is limited, as the entity has no significant interest-bearing liabilities.

**Interest rate sensitivity**

The effect of a 1% change in interest rates on financial liability is presented below:

| **30 June2015** | Movement in interest rate (%) | Increase/(decrease) in deficit |
|---|---|---|
| Loans from shareholder | 1 | - |
| Loans from shareholder | (1) | - |
| | - | - |

| **30 June 2014** | Movement in interest rate (%) | Increase/(decrease) in deficit |
|---|---|---|
| Loans from shareholder | 1 | - |
| Loans from shareholder | (1) | - |
| | - | - |

**Credit risk**

Credit risk consists mainly of cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 34. GOING CONCERN

We draw attention to the fact that at 30 June 2015, the entity had accumulated surplus of R166 827 430 (30 June 2014 accumulated deficit: R 15 013 605) and that the entity's total assets exceeds its liabilities by R 348,273,046 (30 June 2014: (R 108 001 582)).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations.
The annual financial statements are prepared on the basis that the entity is a going concern and that the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity. A letter of comfort is issued each year by the City of Johannesburg Metropolitan Municipality regarding the ability of the entity to carrying on as a going concern in the future.

## 35. EVENTS AFTER THE REPORTING DATE

Management is not aware of any matter or circumstance arising since the end of the financial year which will materially alter the report as submitted.

## 36. UNAUTHORISED EXPENDITURE

The entity did not have unauthorised expenditure in the current year.

## 37. FRUITLESS AND WASTEFUL EXPENDITURE

| **Reconciliation of fruitless and wasteful expenditure** | | |
|---|---|---|
| Interest from Telkom account | 9,038 | 22,932 |
| Interest on late payment of Pension Fund contributions | 2,140 | - |
| Scholtz Attorneys - legal fees & interest | 25,862 | - |
| | **37,040** | **22,932** |

Interest charged on the Telkom account as at 30 June 2015 (R9 038): 30 June 2014 (R 22 932) is due to late payments.

The entity incurred legal fees (R 10 353.66) and interest (R 15 508.73) on the Scholtz Attorneys as at 30 June 2015 (R 25 862): 30 June 2014 (R0.00) due to late payments.

Interest on late payment of Fund contributions as at 30 June 2015 (R 2 140) due to late application of contribution percentage increase.

The entity is currently in the process of investigating the interest charges and once finalized, disciplinary action will be taken on individuals responsible for the fruitless expenditure.

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 38. IRREGULAR EXPENDITURE

**Reconciliation of irregular expenditure**

| | 2015 | 2014 |
|---|---|---|
| Ambassador Air - Expired contracts | 91,310 | 1,180,839 |
| Dakalo Cleaning Services - Services rendered with no contract in place | 81,904 | 749,062 |
| Document Warehouse - Expired contract | 138,910 | 404,099 |
| Rentokil - Expired contract | 316,279 | 1,085,932 |
| Metrofile - Transgressions of SCM procedures | 31,053 | 19,385 |
| Incident Prevention Solution | - | 197,220 |
| Provox Centre for Public Relations | 4,994 | - |
| D & F Commodity Broking CC | 92,280 | - |
| | **756,730** | **3,636,537** |

**Reconciliation of irregular expenditure**

| | 2015 | 2014 |
|---|---|---|
| Opening balance | 3,636,537 | 14,027,473 |
| Irregular expenditure: condoned by council | (3,636,537) | (14,027,473) |
| Irregular expenditure: current year | 756,730 | 3,636,537 |
| | **756,730** | **3,636,537** |

**Action taken by Management regarding irregular expenditure**

A circular was issued to all staff on irregular expenditure advising that employees who cause the company to incur irregular expenditure will face disciplinary hearing. Condonation reports were required to be written by the relevant department citing the following: Background of the actions that led to irregular expenditure, actions taken against the employee or support in the form of education of SCM processes and the amount involved.

Irregular expenditure is not permitted and controls have been put in place to prevent, detect and correct any such transactions that might occur. Where irregular expenditure occurs, a condonation report is submitted. Irregular expenditure is reported to Executive Management Team, Audit Committee, the Board of Directors and the City of Johannesburg.

The contracts were terminated and SCM processes were followed to appoint service providers during the year. The expenditure noted occurred during the 1st and 2nd quarter while SCM was still in the process of appointing service providers.

Management is in the process of enhancing a demand plan for goods or services to improve the management and compliance with the supply chain regulations.

## 39. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same Gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he/she records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the annual financial statements.

Emergency work was procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the board who considered them and subsequently approved the deviation from the normal supply chain management regulations.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 40. DEVIATION EXPENDITURE

| | | |
|---|---|---|
| **Reconciliation of Deviation expenditure** | | |
| AECOM SA - Emergency appointment - Professional Services for the M1 Double Decker Viaduct in Johannesburg | 119,708 | - |
| ARQ CONSULTING Engineers - Emergency appointment - Professional Services for the M1 Double Decker Viaduct in Johannesburg | 100,161 | - |
| Thembakele Consulting Engineers - Emergency appointment - Professional Services for the Design & Construction monitoring of stormwater management system at David Street, Olivedale | 767,495 | - |
| SNA Civil Structural Engineers - Emergency appointment - Professional Services for Urgent repair work on the M1 Double Decker Bridge | 7,881,500 | - |
| Africa on Air, a Division of Prime Media - Sole provider - appointment of service provider in the electronic media to broadcast the Live Reads and adverts of the Citizen Pride Campaign | 2,234,917 | - |
| Otis Pty Ltd - Emergency appointment - The Upgrade of basement Elevator at JRA Head office | 1,124,000 | - |
| Egoli Gas - Sole supplier - Bulk Gas Supply to the Asphalt Plant | 550,741 | - |
| Gillcels Construction & Projects cc - Emergency appointment - Repairs to a Burst Pipe at the Laboratory – Main Ablution Facilities | 4,200 | - |
| Madisha and Associates cc - Emergency Appointment of Stormwater Project in Auckland Park Country Club, Culvert | 825,203 | - |
| Madisha and Associates cc - Emergency Appointment Stormwater Project in Auckland Park, BRT Wall | 825,203 | - |
| Lettam Building & Civils cc - Emergency Appointment – Remedial Interventions at Erven 98 & Rooiels Road, Sharonlea Extension 1 | 200,000 | - |
| Molemo Consulting Engineers - Emergency Appointment – Stormwater Project in Surrey Road, Ferndale | 959,955 | - |
| Molemo Consulting Engineers - Emergency Appointment – Stormwater Project in Grosvenor Road, Bryanston | 851,955 | - |
| SAP - (Sole supplier - New accounting software) | 17,414,232 | - |
| Rodecon Engineering - Sole Supplier - Calibration of weighbridges at Asphalt Plant | 148,392 | - |
| AHI Carries SA - Emergency Appointment - Repairs of air-condition systems at JRA Head Office | 10,436 | - |
| Bizstrat Intelligent Business - Sole Supplier - Sole provider for the 5th Business continuity management disaster recovery and risk management conference | 20,497 | - |
| Document Warehouse - Sole Supplier - Storage facilities for JRA documents | 411,064 | - |
| Moodie & Robertson - Emergency appointment for legal services | 50,000 | - |
| Bophelong Construction (Pty) Ltd Repairs to damaged embankment causing mudslide at M1 Southbound near Killarney | - | 197,122 |
| Much Asphalt Emergency procurement of asphalt for the launch of the resurfacing programme. (Asphalt plant was down) | - | 299,592 |
| Powerbars and Control Emergency Repairs to Asphalt Plant After lighting hit the plant | - | 50,170 |
| Much Asphalt Supply of Asphalt when the plant is not operational as and when required until panel of service providers are in place | - | 1,997,280 |
| SCIP Engineering Group Emergency repairs of sinkhole on Empire Road | - | 3,149,000 |
| MJP Projects Roof repairs at regional and strategic assets depots and Head Office | - | 3,698,865 |
| WBHO Construction (Pty) Ltd Emergency appointment of the reconstruction of stormwater culvert in empire road Parktown | - | 21,586,647 |
| Arup Consulting Engineers for the investigation, design and construction monitoring of the sinkhole at 33 Quellerie street, Witpoortjie | - | 1,365,756 |
| | **34,499,659** | **32,344,432** |

# Notes to the annual financial statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 41. BIDS AWARDED TO CLOSE FAMILY MEMBERS OF PERSONS IN THE SERVICE OF THE STATE

JRA awarded a tender to SMEC where one of the directors' wife is in the service of the state. The bidder disclosed the relationship in the bid documents. The details are as follows:

| Supplier | Description of Contract | Director in SMEC | Name of person in service of state | Capacity in service of state | Amount awarded (exc vat) |
|---|---|---|---|---|---|
| SMEC South Africa Pty Ltd | Appointment of SMEC as project managers for a group of CAPEX 2014/2015 projects (contract no: 067/2013). | Dr Matthews N Phosa (with wife in service of the state) | Ms Yvonne P Phosa (wife to SMEC director ) | MEC Economic Development, Environment & Tourism in Mpumalanga Province | 5,977,626 |

# Detailed Income statement

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **Revenue** | | | |
| Gautrans' Maintenance Fees | | 5,788,000 | 5,746,000 |
| Asphalt sales | | 768,814 | 7,734,940 |
| Jobbings | | 18,754,029 | 29,745,351 |
| Reinstatements Income and Wayleave Fees | | 11,572,762 | 29,183,339 |
| City of Johannesburg subsidy | | 761,067,000 | 651,103,000 |
| Management Fees | | 17,785,787 | 11,072,821 |
| Interest on fair value debtors | | (2,156,198) | (3,146,697) |
| Tender Deposits | | 2,612,885 | 1,180,265 |
| Developer's Contribution | | 52,879,110 | 40,721,161 |
| | 18 | **869,072,189** | **773,340,180** |
| **Cost of road maintenance** | | | |
| Opening stock | | (29,569,388) | (18,748,751) |
| Purchases | | (151,513,548) | (159,250,420) |
| Closing stock | | 18,772,002 | 29,569,388 |
| Labour costs | | (283,327,411) | (249,639,157) |
| | 19 | **(445,638,345)** | **(398,068,940)** |
| **Gross surplus** | | **423,433,844** | **375,271,240** |
| **Other income** | | | |
| Rental income | | 3,263,135 | 2,911,434 |
| Recoveries - Provision for bad debts | | 51,536,433 | - |
| Training income | | 300,563 | - |
| Recoveries - Unallocated receipts, JPC, Fuel | | 9,218,375 | 358,175 |
| Penalties and tender deposit | | - | 87,719 |
| Insurance claims | | 10,875,747 | 7,858,846 |
| Interest received | 23 | 20,649,588 | 10,371,998 |
| | | **95,843,841** | **21,588,172** |
| **Expenses (Refer to page 75)** | | **(329,263,277)** | **(302,037,066)** |
| **Operating surplus** | 21 | **190,014,408** | **94,822,346** |
| Finance costs | 25 | (8,173,373) | (4,912,835) |
| **Surplus for the year from continuing operations** | | **181,841,035** | **89,909,511** |
| Gain from discontinued operations | | - | 30,524,871 |
| **Surplus for the year** | | **181,841,035** | **120,434,382** |

| | | | |
|---|---|---|---|
| **Operating expenses** | | | |
| Advertising | | (2,960,121) | (1,632,345) |
| Assets expensed | | (534,798) | (24,966) |
| Auditors remuneration | 27 | (2,138,318) | (1,704,332) |
| Bank charges | | (105,558) | (116,339) |
| Hostel charges | | (1,265,264) | (1,354,920) |
| Conferences and seminars | | (1,113,847) | (690,932) |
| Consulting and professional fees | | (56,162,893) | (42,875,394) |
| Consumables | | (3,432,822) | (3,148,965) |
| Call center services | | (3,028,000) | (2,876,000) |
| Safety | | (29,780) | (49,962) |
| Depreciation, amortisation and impairments | | (31,022,565) | (23,805,300) |
| Directors and committee members' fees | | (1,353,830) | (759,929) |
| Employee costs | | (103,622,336) | (109,020,601) |
| Entertainment | | (624,313) | (993,369) |
| Legal claims provision | | - | (29,349,578) |
| Interest and penalties | | (3,957) | (191,234) |
| General expenses | | (587,063) | - |
| Bursaries and subsidies paid | | (1,485,077) | - |
| IT expenses | | (15,140,016) | (6,782,686) |
| Insurance | | (12,110,519) | (8,040,332) |
| Lease rentals on operating lease | | (1,021,195) | (951,147) |
| Legal expenses | | (1,306,890) | (728,373) |
| Levies | | 12,983 | - |
| Magazines, books and periodicals | | (183,677) | (234,073) |
| Medical expenses | | (43,158) | - |
| Printing and stationery | | (3,909,247) | (2,649,955) |
| Promotions | | (945,438) | (456,900) |
| Protective clothing | | (2,087,883) | (196,477) |
| Repairs and maintenance | | (12,920,799) | (10,546,741) |
| Security | | (16,037,188) | (13,783,395) |
| License Expenses | | (6,828,771) | (5,621,256) |
| Staff welfare | | (71,703) | - |
| Subscriptions | | (208,253) | (29,994) |
| Telephone and fax | | (15,513,644) | (11,543,571) |
| Training | | (3,560,101) | (3,930,802) |
| Travel - local | | 144,700 | - |
| Travel | | (731,571) | (335,615) |
| Utilities | | (27,330,365) | (17,611,583) |
| | | **(329,263,277)** | **(302,037,066)** |